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SUBJECT: SINGAPORE UNEMPLOYMENT RATE STEADY AS ECONOMY BEGINS RECOVERY

REF: A) SINGAPORE 112; B) SINGAPORE 671; C) SINGAPORE 80

**¶11.** (U) Summary: Singapore's overall unemployment rate stayed steady at 3.3 percent during the second quarter, although industry still reported 12,400 net job losses, mostly in manufacturing. Unemployment during the economic slowdown has been lower than in previous recessions, and much better than had been feared earlier in the year. Labor market analysts give credit for the lower than expected job losses to Singapore's flexible wage structure and company policies to shrink wages and shorten work weeks rather than lay off surplus workers. Government programs to subsidize worker salaries and training have kept tens of thousands of workers on payrolls and helped keep company bankruptcies to a minimum. Surveys of business sentiment indicate improved hiring prospects in the final half of the year, but unemployment rates will likely stay elevated as companies bring back temporarily surplus workers first rather than hire new entrants. End Summary.

Unemployment Rate Steady, But Still Job Losses

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**¶12.** (U) On July 31, Singapore's Ministry of Manpower released preliminary unemployment figures for the second quarter of 2009 showing no change in the overall unemployment rate of 3.3 percent seen during the first quarter, seasonally adjusted. The resident unemployment rate, which captures only Singaporeans and permanent residents, actually declined from 4.8 percent to 4.6 percent. The overall rate was under consensus estimates by local economic analysts of 3.7 percent. However, non-seasonally adjusted figures showed the unemployment rate climbing from 3.0 percent to 4.2 percent, and the resident unemployment rate hitting 6.0 percent. The Ministry of Manpower said the higher non-seasonally adjusted rate partly reflected the entrance of new graduates into the labor market. Industry reported 12,400 job losses over the second quarter, primarily in manufacturing. Construction and services had small net gains. An estimated 116,600 Singaporean residents are unemployed.

**¶13.** (U) Despite the increase in unemployment, economic analysts say current job losses are less severe than in past recessions and lower than had been feared at the height of the recession at the beginning of the year. A Credit Suisse report in January (ref A) had predicted job losses of over 200,000 during 2009 among foreign workers alone. Net job losses in the first quarter turned out to be only 0.2% of the labor force, a surprisingly low number given the real GDP drop of eight percent in the last quarter of 2008 and first quarter of 2009. However, employment tends to lag GDP growth and although there are ample signs that the Singapore economy has bottomed out and a recovery has begun (ref B), another wave of job losses is possible and unemployment is expected to peak during the third or fourth quarter of 2009.

Keeping Workers On the Payroll

14. (SBU) Economists credit Singapore's flexible wage structure, strong corporate balance sheets, and government jobs programs for the resiliency of the labor market. Companies have been following National Wage Council guidelines to save costs by reducing wages, eliminating bonuses and cutting work weeks rather than retrenching workers. Credit Suisse estimated that real wages fell 5.8 percent in the first quarter, the largest drop since 1998. In some cases, multinationals are substituting high cost foreign labor with lower cost foreign labor, and moving expatriate workers to local packages.

Strong balance sheets have meant fewer bankruptcies during this recession, allowing most companies to ride out the recession and keep staff on board. Song Seng Wun, regional economist for CIMB, told Econoff that although there were high numbers of layoffs during the recession there was still substantial hiring, particularly in construction and in the public sector, and many retrenched workers were able to find new employment relatively quickly. Also, many foreign workers have returned home rather than find new employment, and universities are reporting higher than normal application rates for the upcoming school year, reducing the overall labor pool.

15. (SBU) Government programs to subsidize worker salaries and training have also received credit for saving tens of thousands of jobs. The Jobs Credit Scheme instituted as part of a stimulus budget package in January (ref C) has been the most important, offering a 12 percent rebate to employers on the first S\$2500 (US\$1750) of wages for Singaporean or permanent resident workers. A Citibank study estimated the scheme reduced employers' wage bills by an average of six percent per worker across all industries. For industries with a high labor component and relatively low wages this program has been a boon. Over S\$1.8 billion (US\$1.25 billion) has

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been distributed to companies since the program began. Companies have also sent 124,500 workers for subsidized training programs. The SPUR program covers up to 90 percent of training costs and provides a stipend to workers while in training, allowing companies to upgrade the skills of temporarily surplus labor without forcing layoffs.

#### Hiring Outlook Looking Up

16. (U) Employment surveys suggest that the labor market has bottomed out and hiring prospects are improving. A survey by Manpower, Inc. of 697 employers in Singapore showed that 74 percent had no plans to change total employment during the third quarter, but 12 percent planned to hire versus seven percent planning to decrease total employment. The results were far superior to surveys for the previous two quarters that predicted substantial layoffs. A May poll by recruitment firm Hudson was even more optimistic, with 26 percent of executives polled projecting higher recruitment in the third quarter, with 60 percent planning to hold steady.

17. (U) Respondents to the Hudson poll from the healthcare and life sciences sector had the highest hiring expectations with 38 percent planning to grow headcount. The financial sector had the biggest jump in hiring intentions, with 32 percent planning to hire compared to only 19 percent in the second quarter survey. Employment prospects are still dim in manufacturing, which showed a net employment outlook of negative 29 percent in the Manpower survey. Despite the still high number of unemployed, Marina Bay Sands reported July 30 that it was having difficulty filling 4500 gaming positions at its casino scheduled to open in early 2010.

18. (U) Although analysts believe the resident unemployment rate will not peak too far beyond five percent, the measures taken to minimize headcount reductions will mean lower unemployment rates remain a ways off. As business improves, companies will first re-establish regular work weeks, end temporary layoffs and bring workers back from training rather than hire new workers from the labor pool.

SHIELDS